

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 1406

EXDIS

E.O. 11652: GDS
TAGS: EFIN, PEPR, TU, US
SUBJECT: US-TURKISH CONSULTATIONS: SECOND SESSION

REF: ANKARA 1373

1. THE SECOND SESSION OF TALKS BETWEEN THE TURKISH AND AMERICAN DELEGATIONS HEADED BY STATE DEPARTMENT COUNSELOR MATTHEW NIMETZ AND SUKRU ELEKDAG, TURKISH SECRETARY GENERAL OF MINISTRY OF FOREIGN AFFAIRS, TOOK PLACE AFTERNOON OF FEBRUARY 22.

2. NIMETZ RESPONDED TO SHORT AND MEDIUM-TERM STEPS WHICH ELEKDAG HAD SUGGESTED IN THE MORNING THAT THE US CONSIDER TAKING TO HELP TURKEY IN OVERCOMING ITS CURRENT ECONOMIC DIFFICULTIES (REFTEL):
A. ANNOUNCEMENT BY US THAT NO ECONOMIC EMBARGO IS BEING IMPLEMENTED AGAINST TURKEY. NIMETZ SAID THAT THERE WAS NO SUBSTANCE TO CLAIM OF A U.S. ECONOMIC EMBARGO AGAINST TURKEY. USG HAS MADE NO ATTEMPT TO RESTRICT FLOW OF FINANCING FOR POLITICAL REASONS. ON CONTRARY, US IS INTERESTED IN A STRONG AND HEALTHY ECONOMY AND WOULD NOT WISH TO DO ANYTHING AGAINST TURKEY'S ECONOMIC INTEREST. USG WOULD HAVE NO OBJECTION TO STATING THIS FACT. NIMETZ AND HIS COLLEAGUES WOULD RECOMMEND TO USG THAT SUCH LANGUAGE BE USED IN AN APPROPRIATE CONTEXT IN THE NEAR FUTURE TO ALLAY ANY LINGERING DOUBTS THAT AN ECONOMIC EMBARGO MAY EXIST.

B. USE OF US GOVERNMENT INFLUENCE OVER FINANCIAL ORGANIZATIONS
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ON BEHALF OF TURKEY. USG COULD NOT AGREE TO INTERVENE DIRECTLY WITH THE IMF OR ANY OTHER INTERNATIONAL FINANCIAL INSTITUTION (IFI) ON BEHALF OF TURKEY. OBLIGATIONS OF MEMBERSHIP IN IFI'S PRECLUDE US FROM DIRECTLY INTERVENING IN INTERNATIONAL PROCESSES. IF IMF IS SEEN AS A POLITICAL ORGAN, THEN ITS INTEGRITY WOULD BE UNDERMINED AND ITS INFLUENCE WITH BANKS REDUCED. US WOULD, HOWEVER, BE PREPARED TO LEND WHATEVER SUPPORT IT CAN AT BOARDS OF DIRECTORS

TO PROPOSALS FOR TURKEY THAT BANK AND FUND MANagements MAY BRING FORWARD.

C. USE OF USG INFLUENCE OVER PRIVATE BANKS ON BEHALF OF TURKEY. IT WOULD NOT BE FEASIBLE FOR USG TO INTERVENE DIRECTLY WITH PRIVATE BANKS TO ENCOURAGE THEM TO PROVIDE ADDITIONAL FINANCING TO TURKEY. SUCH ENCOURAGEMENT MIGHT LEAD BANKS TO EXPECT GOVERNMENT TO STAND BEHIND THEIR LOANS IN CASE OF REPAYMENT DIFFICULTIES; USG HAS NO PROGRAM FOR GUARANTEEING LOANS OF PRIVATE BANKS AND CONGRESS IS OPPOSED TO USE OF GOVERNMENT FUNDS TO BAIL THEM OUT. BASIC RESPONSIBILITY FOR CREDIT DECISIONS MUST REMAIN WITH BANKS THEMSELVES. WHEN BANKS COME TO US OFFICIALS FOR INFORMATION, US OFFICIALS ARE MOST POSITIVE IN THEIR COMMENTS ON POLITICAL DEVELOPMENTS IN TURKEY.

D. CONSOLIDATION OF TURKISH DEBTS TO US CREDITORS. IT IS FIRM US POLICY THAT RESPONSIBILITY FOR CONSOLIDATION OR REFINANCING OF PRIVATE DEBTS RESTS WITH PRIVATE CREDITORS. HOWEVER, USG PARTICIPATED IN RESCHEDULING OPERATIONS IN PAST AND WOULD BE PREPARED TO CONSIDER DOING SO AGAIN WITH REGARD TO DEBTS OWED DIRECTLY TO THE GOVERNMENT OR GUARANTEED BY A USG AGENCY. US POLICY REQUIRES, HOWEVER, THAT THERE MUST BE EQUITABLE BURDEN SHARING AMONG ALL CREDITORS. THIS MEANS THAT DEBTS ARE RESCHEDULED IN A MULTILATERAL FRAMEWORK WHERE ALL MAJOR CREDITOR COUNTRIES PARTICIPATE AND THAT THERE MUST BE COMPARABLE TREATMENT FOR THE DEBTS OWED PRIVATE CREDITORS. US ALSO HOLDS THAT A DEBT RESCHEDULING OPERATION SHOULD ONLY BE UNDERTAKEN IN CONJUNCTION WITH A STABILIZATION PROGRAM WHICH INCLUDES SOME ARRANGEMENT WITH IMF. CONFIDENTIAL

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E. US GOVERNMENT CASH TRANSFERS TO TURKEY. USG DOES NOT HAVE A PROGRAM OF BILATERAL ASSISTANCE FOR BALANCE-OF-PAYMENTS PURPOSES NOR DOES IT HAVE A PROGRAM TO GUARANTEE LOANS BY PRIVATE BANKS. IMF HAS BEEN DEVELOPED AS MAIN INSTITUTION FOR HANDLING BALANCE-OF-PAYMENTS PROBLEMS. REFERRING TO US ASSISTANCE PROGRAM FOR PORTUGAL, NIMETZ EXPLAINED THAT US CONTRIBUTION WAS PROVIDED UNDER SPECIAL LEGISLATION WHICH HAD BEEN DIFFICULT TO OBTAIN. CONGRESS HAS MADE CLEAR THAT IT DOES NOT FORESEE PROVIDING LEGISLATION OF THIS KIND IN THE FUTURE. SINCE TIME WHEN MULTI-LATERAL PACKAGE FOR PORTUGAL WAS PUT TOGETHER, ADMINISTRATION HAS ASKED CONGRESS TO APPROPRIATE FUNDS FOR WITTEVEEN FACILITY, WHICH IS AIMED AT PROVIDING INCREASED ASSISTANCE ON A MULTILATERAL BASIS.

F. SECURITY SUPPORTING ASSISTANCE TO TURKEY. RECOMMENDATIONS FOR SECURITY SUPPORTING ASSISTANCE FOR FY 1979 ARE ALREADY BEFORE CONGRESS. IN VIEW OF THE US BUDGETARY CYCLE, NIMETZ BELIEVED THAT SUCH A PROGRAM WOULD NOT BE FEASIBLE FOR TURKEY THIS YEAR. FURTHER, CONGRESS IS NOT ENTHUSIASTIC ABOUT PROVIDING SECURITY SUPPORTING ASSISTANCE. HE WOULD NOT, HOWEVER, RULE IT OUT AT SOME APPROPRIATE TIME BUT HE DID NOT SEE IT AS A SOLUTION TO TURKEY'S SHORT-TERM PROBLEM.

G. FINANCING OF SPECIFIC TURKISH PROJECTS THROUGH EXPORT-IMPORT BANK CREDITS. ACCORDING TO ITS CHARTER, EXIMBANK CANNOT MAKE

LOANS UNLESS IT HAS REASONABLE EXPECTATION OF REPAYMENT. NIMETZ WAS CONFIDENT THAT ONCE TURKEY REACHES AGREEMENT WITH IMF, REGULARIZES ITS SITUATION WITH PRIVATE BANKS, AND OTHERWISE BEGINS TO RESTORE ITS EXTERNAL CREDIT-WORTHINESS, EXIMBANK WOULD BE PREPARED TO CONSIDER FINANCING NEW PROJECTS, PARTICULARLY THOSE WHICH WOULD EARN FOREIGN EXCHANGE.

H. CREDIT TO TURKEY THROUGH EXCHANGE STABILIZATION FUNDS (ESF).
USG CAN PROVIDE BALANCE-OF-PAYMENTS FINANCING THROUGH ESF ONLY IN EXCEPTIONAL CASES AND UNDER SPECIF CONDITIONS. SUCH FINANCING MUST BE IN CONTEXT OF AN IMF STABILIZATION PROGRAM. IT IS PROVIDED ONLY FOR SHORT PERIODS -- SIX MONTHS AT MOST -- AS A BRIDGE TO EXPECTED FOREIGN-EXCHANGE RECEIPTS. ADMINISTRATION MUST CONSULT WITH CONGRESS BEFORE MAKING ESF FINANCING AVAILABLE. NIMETZ COMMENTED THAT TURKEY'S BALANCE-OF-PAYMENTS CRISIS IS NOT LIKELY TO BE
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RESOLVED IN SIX MONTHS AND THAT POLITICALLY CONGRESSIONAL APPROVAL WAS NOT LIKELY IN PRESENT ATMOSPHERE.

I. MARKETING OF TURKEY'S SURPLUS AGRICULTURAL STOCKS. USG IS NOT IN BUSINESS OF MARKETING, NIMETZ SAID. HE DID KNOW, HOWEVER, OF AT LEAST ONE LARGE COMPANY INTERESTED IN SELLING TURKISH AGRICULTURAL STOCKS ON A COMMERCIAL BASIS. HE THOUGHT THAT TURKISH MINISTRY OF AGRICULTURE SHOULD EXPLORE THIS POSSIBILITY DIRECTLY WITH LARGE US COMPANIES OR WITH EUROPEAN COMPANIES. FURTHER, HE SAID US SIDE WOULD BE WILLING TO EXPLORE WITHIN USG POSSIBILITY OF PROVIDING TECHNICAL ASSISTANCE FOR MARKETING OF TURKISH VEGETABLES AND CITRUS FRUITS UNDER 1977 BILATERAL AGREEMENT IN THE FIELD OF AGRICULTURE AND FOOD INDUSTRY.

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J. US/TURKISH COOPERATION IN ENERGY. USG HAS PROPOSED COOPERATIVE DEVELOPMENT OF A DETAILED ENERGY ASSESSMENT FOR TURKEY, INCLUDING DEFINITION OF OPTIONAL ENERGY STRATEGIES, FOR USE AS A TOOL BY NATIONAL POLICY-MAKERS. EMBASSY IS AWAITING A REPLY FROM THE MINISTRY OF ENERGY TO THIS PROPOSAL.

E. REMOVAL OF TRADE RESTRICTIONS AFFECTING TURKISH EXPORTS. US SIDE, NIMETZ SAID, WOULD BE INTERESTED IN KNOWING WHAT SPECIFIC PRODUCTS TURKISH SIDE HAD IN MIND WHEN IT ASKED FOR REMOVAL OF US TRADE RESTRICTIONS AFFECTING TURKISH EXPORTS. US WOULD BE WILLING TO LOOK INTO SPECIFIC COMPLAINTS.

L. US DEFENSE PRODUCTION COOPERATION WITH TURKEY. USG WOULD BE INTERESTED IN HEARING IDEAS OF TURKISH GOVERNMENT ON MATTER OF COOPERATIVE ARMAMENT PRODUCTION. TURKS SHOULD BE AWARE, HOWEVER, THAT USG IS NOT IN BUSINESS OF PRODUCING ARMAMENTS; THIS ACTIVITY IS LEFT TO US PRIVATE SECTOR. WHILE US WOULD BE WILLING TO EXPLORE TURKISH IDEAS IN THIS AREA, IT WAS NOT SURE THAT COOPERATION IN ARMAMENTS PRODUCTION WOULD OFFER SOLUTIONS TO TURKEY'S ECONOMIC PROBLEMS.

3. SECRETARY GENERAL ELEKDAG REPLIED THAT MR. NIMETZ'S PRESENTATION HAD RAISED CERTAIN QUESTIONS IN HIS MIND. MR. NIMETZ' STATEMENT LAST SEPTEMBER IN ANKARA THAT US WOULD BE INTERESTED IN KNOWING ABOUT TURKEY'S ECONOMIC SITUATION HAD GIVEN TURKISH GOVERNMENT IMPRESSION THAT US MIGHT PROVIDE CERTAIN ECONOMIC ASSISTANCE. ELEKDAG ALSO RECALLED THAT NIMETZ HAD SAID US WOULD DO ITS BEST
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TO USE ITS INFLUENCE WITH IFI'S. NIMETZ HAD ALSO STATED SIX MONTHS AGO THAT THERE WOULD HAVE TO BE INTENSIVE DISCUSSIONS WITHIN USG BEFORE HE COULD SAY ANYTHING SPECIFICALLY ABOUT BILATERAL AID. CANDIDLY, ELEKDAG HAD THOUGHT THAT THOSE DISCUSSIONS WOULD HAVE BEEN ACCOMPLISHED BY NOW AND THAT US DELEGATION WOULD HAVE SOME IDEA ABOUT ASSISTANCE THAT USG COULD PROVIDE TO TURKEY. ELEKDAG ADDED THAT ALTHOUGH EXPERTS ON TURKISH SIDE WOULD BE WILLING TO DISCUSS WITH AMERICAN COUNTERPARTS IN GREATER DETAIL LIST OF TURKISH SUGGESTIONS ON WAYS IN WHICH US MIGHT BE HELPFUL TO TURKEY, GROUND DID NOT SEEM FERTILE TO HIM.

4. TURKEY'S ECONOMIC OUTLOOK WAS NOT BRIGHT. NONE OF TURKEY'S ALLIES WITH WHICH IT USED TO HAVE CLOSE RELATIONS ARE INTERESTED. TURKEY CANNOT OBTAIN ARMS NEEDED FOR HER DEFENSE AND FOR HER MUTUAL SECURITY RESPONSIBILITY IN WESTERN ALLIANCE. AFTER THREE YEARS OF US MILITARY EMBARGO, MAJORITY OF TURKEY'S PUBLIC NOW HAS DEEP MISGIVING ABOUT CREDIBILITY OF EXISTING DEFENSE RELATIONSHIPS TURKISH GOVERNMENT COULD HAVE VERY DIFFICULT TIME JUSTIFYING ITS DEFENSE RELATIONSHIP WITH WESTERN WORLD. IF ANY ASSISTANCE IS TO BE PROVIDED TO TURKEY, TIME ELEMENT IS IMPORTANT. SECRETARY GENERAL SAID HE THOUGHT TURKEY HAD TO KNOW AT WHAT LEVEL ITS

RELATIONS WITH US WERE TO BE.

5. NIMETZ TOOK ISSUE WITH ELEKDAG'S STATEMENT THAT TURKEY'S ALLIES HAVE NOT RESPONDED TO ITS NEEDS AND ARE THEREFORE INDIFFERENT TO TURKEY'S SITUATION. US AND TURKEY'S FRIENDS IN EUROPE, ON CONTRARY, ARE MUCH CONCERNED ABOUT ITS SITUATION. WHAT TURKISH GOVERNMENT SEES AS INACTION IS EXPECTATION THAT CERTAIN PROCEDURES SHOULD BE FOLLOWED. USG BELIEVES, AND NIMETZ THOUGHT EUROPEAN COUNTRIES WERE CONFIDENT, THAT TURKEY'S PROBLEMS COULD BE SOLVED WITH A STABILIZATION PROGRAM WORKED OUT IN CONJUNCTION WITH IMF. US AND EUROPEAN COUNTRIES DO NOT SEE TURKEY'S PROBLEM AS INSOLUBLE. THEY ARE NOT INDIFFERENT, BUT THEY DO NOT HAVE A PANACEA. PROBLEM CONFIDENTIAL

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HAS TO BE SOLVED IN A COMPREHENSIVE WAY. HE UNDERSTOOD THAT TURKEY'S GOVERNMENT WAS ENGAGED IN FORMULATING JUST SUCH A SOLUTION.

6. US SIDE, NIMETZ SAID, WOULD BE INTERESTED IN KNOWING WHAT TURKISH EXPERTS PERCEIVE AS CONTENTS OF THIS STABILIZATION PROGRAM, WHAT THEY SAW AS TIMEING OF THEIR DISCUSSIONS AND AGREEMENT WITH IMF, WHAT CONTACTS THEY HAVE BEEN HAVING WITH PRIVATE BANKS, AND TIME-FRAME THEY FORESAW FOR ARRANGING RE-SCHEDULING AND OBTAINING ANY NEW CREDITS. HE HOPED THERE COULD ALSO BE DISCUSSION OF MEDIUM AND LONG-TERM MEANS OF INDUCING DEVELOPMENT FUNDS TO FLOW INTO TURKEY. (HE OBSERVED THAT ALTHOUGH TURKISH GOVERNMENT HAS NOT PARTICULARLY ENCOURAGED FOREIGN INVESTMENT, IT WAS REMARKABLE TO HIM HOW MUCH EFFORT ROMANIA, YUGOSLAVIA, AND OTHER COMMUNIST EAST EUROPEAN COUNTRIES WERE MAKING TO ATTRACT AMERICAN INVESTMENT.)

7. IN SHORT, NIMETZ SUMMARIZED, US CONSIDERS TURKEY'S ECONOMIC SITUATION TO BE A MAJOR INTERNATIONAL ISSUE BUT BELIEVES THAT MAIN SOLUTION WILL HAVE TO COME THROUGH ARRANGEMENTS WITH IMF AND BANKS AS WELL AS THROUGH EFFORTS OF FRIENDLY GOVERNMENTS. HE WAS NOT RULING OUT POSSIBILITY OF BILATERAL US EFFORTS AT SOME FUTURE TIME BUT THESE, HE SAID, WERE NOT THE SOLUTION. SOLUTION WAS ONE THAT ONLY TURKEY COULD WORK OUT.

8. SECRETARY GENERAL ASKED FOR NIMETZ'S VIEWS ABOUT REACTIVATING OECD CONSORTIUM. DELEGATION MEMBER, JOSEPH WINDER, AT REQUEST OF NIMETZ, REPLIED THAT USG HAS GIVEN SOME THOUGHT TO THE SUBJECT AND WAS GENERALLY POSITIVE TO CONCEPT OF A COORDINATED MULTILATERAL APPROACH. QUESTION OF TIMING ARISES, HOWEVER, AND THIS WOULD BE GOVERNED BY PACE OF TURKEY'S RELATIONS WITH IMF. US THOUGHT OF MULTILATERAL ACTIVITY AND OF OECD CONSORTIUM IN TERMS OF MEDIUM AND LONGER-TERM FINANCING, RATHER THAN OF BALANCE-OF-PAYMENTS FINANCING. POSSIBLE EXPANSION IN NUMBER AND TYPE OF PARTICIPANTS ALSO NEED TO BE REVIEWED.

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9. PLENARY SESSION ADJOURNED TO PERMIT EXPERTS ON BOTH SIDES TO MEET SEPARATELY TO CONSIDER DEFENSE AND ECONOMIC MATTERS AND TO ALLOW MR. ELEKDAG, MR. NIMETZ, AND AMBASSADOR SPIERS TO MEET TOGETHER (SEPTELS).
SPIERS

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